

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

PERIODIC REPORTING
(PROPOSALS ONE THROUGH FIVE)

Docket No. RM2013-6

REPLY COMMENTS OF THE UNITED STATES POSTAL SERVICE

The United States Postal Service hereby replies to the comments of the Public Representative, filed on September 9, 2013. The Postal Service focuses in particular on the Public Representative's comments regarding Proposals Two and Three. The Postal Service's responses to the two information requests issued by the Chairman sufficiently address the Public Representative's other concerns.

Proposal Two

The Public Representative raises three issues with regard to Proposal Two. First, the Public Representative states that he is unable to calculate the impact of the proposal at the product level. The proposal, as filed, contains all of the information necessary to perform such an analysis. The current and proposed attributable costs for a product are calculated by multiplying the relevant distribution factor by the attributable costs contained at the bottom of the table in the petition. The following table contains the aggregate impact of Proposal Two on each product's attributable costs.

PRODUCT	PROPOSED AK, HI, AIR TAXI (\$000) FY12	CURRENT AK, HI, AIR TAXI (\$000) FY12	TOT DIFF (PROP- CURR) AK, HI, TAXI (\$000) FY12
FIRST CLASS MAIL			
SINGLE PIECE LETTERS	9,508	14,777	(5,269)
SINGLE PIECE CARDS	164	244	(81)
PRESORT LETTERS	20,203	7,453	12,750
PRESORT CARDS	699	202	497
SINGLE PIECE FLATS	5,844	10,597	(4,753)
PRESORT FLATS	2,395	894	1,501
PARCELS	1,905	1,998	(93)
TOTAL FIRST CLASS	40,718	36,166	4,552
STANDARD MAIL			
HIGH DENSITY AND SATURATION LETTERS	92	10	82
HIGH DENSITY AND SATURATION FLATS & PARCELS	233	10	223
CARRIER ROUTE	1,084	397	687
LETTERS	4,263	2,851	1,411
FLATS	3,354	3,642	(288)
PARCELS	295	561	(265)
TOTAL STANDARD MAIL	9,321	7,471	1,850
PERIODICALS			
IN COUNTY	-	-	-
OUTSIDE COUNTY	4,897	5,787	(890)
TOTAL PERIODICALS	4,897	5,787	(890)
PACKAGE SERVICES			
BOUND PRINTED MATTER FLATS	405	394	11
BOUND PRINTED MATTER PARCELS	757	752	5
MEDIA AND LIBRARY MAIL	2,278	267	2,011
TOTAL PACKAGE SERVICES	3,441	1,413	2,027
USPS MAIL	1,024	469	555
FREE MAIL -BLIND HANDICAPPED & SERVICEMEN	166	41	126
TOTAL DOMESTIC MARKET DOMINANT MAIL	59,567	51,347	8,220
TOTAL DOMESTIC COMPETITIVE PRODUCTS¹	62,091	72,471	(10,380)
INTERNATIONAL MAIL	6,201	4,042	2,160
ATTRIBUTABLE COSTS (\$000)	127,860²	127,860	-

¹Includes Single Piece Parcel Post which was renamed Standard Post and moved to the competitive product list in January 2013.

²Calculated using the proposed Alaska Adjustment Factor from Proposal One in this docket.

While the impacts are germane, it is critical to remember that the current assignment methods for these cost pools are either outdated (Alaska and Hawaii) or theoretically flawed (Air Taxi). The factors for Alaska and Hawaii are largely based on

special studies conducted over several days almost twenty years ago. The product list and mix have changed considerably since then, so the current factors are practically obsolete. As for Air Taxi, the correct cost driver is pounds. However, the current assignment method uses an air cost-weighted distribution that puts three quarters of the weight on the FedEx Day distribution, which is based on cubic-feet rather than pounds. Distributions based on pounds are much different than one based on cubic-feet. Thus, the current assignment method for Air Taxi costs lacks a solid theoretical foundation.

Second, the Public Representative observes that the proposal results in lower cost coverages for First-Class Package Service, Media and Library Mail, and Outside County Periodicals. His implication appears to be that this is a drawback to approving the proposal. The vital question for the Commission is whether the proposal results in more accurate costs. Here, the proposal provides a more accurate set of distribution factors and corrects a fundamental flaw. Clearly, then, it results in more accurate costs. Whether those costs are higher or lower is irrelevant.

Third, the Public Representative asserts that the Postal Service is proposing to change the cost driver for costs incurred on the Air Taxi network from cubic feet to pounds. This assertion is mistaken. The cost driver for the Air Taxi network is already pounds. However, due to the size of the FedEx Day network and due to the fact that that network's cost driver is cubic-feet, the current method of assigning the Air Taxi network's costs is largely based on cubic feet. This flaw must be corrected, and the proposal does so.

Proposal Three

The Public Representative states that he is unable to determine the specific impacts of Proposal Three on each product's attributable costs. As with Proposal Two, these impacts can be calculated with the information provided in the proposal. Indeed, the Commission itself calculated the impacts for Highway and Rail Plant Load in Question 4 of Chairman's Information Request No. 1.

More importantly, as is the case for Proposal Two, Proposal Three provides a reasonable set of readily updatable distribution factors that correspond with the current product list. These factors replace ones based on a special study conducted approximately ten years ago. Since Proposal Three improves the accuracy of the purchased transportation cost model, it should be approved by the Commission.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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